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SUBJECT: Afghan State-Owned Pashtany Bank President Defends Against Corruption Charges

¶1. (SBU) SUMMARY: Pashtany Bank President Hayat Dayani condemned allegations of corruption and mismanagement by critics in the Afghan finance industry and by Central Bank examiners as coordinated attacks by private sector bank owners who seek a competitive edge against state-owned banks which hold a significant market share of active customers. However, both Afghan Central Bank Governor Fitrat and Finance Minister Zakhilwal have expressed concern to Embassy officers about the health and activities of Pashtany Bank. They are both eager to remove Dayani from office as one step in a reform process that could include consolidating Pashtany with its sister state-owned Bank Millie and opening state-owned bank ownership to private shareholder investment. Such reform measures would require parliamentary approval and currently sitting ministers may be reluctant to proceed with reform measures until parliament confirms the cabinet picks of the incoming administration. End Summary.

¶2. (SBU) On August 4, Treasury Attach met with Pashtany Bank President Hayat Dayani to discuss successes at the bank, as well as a series of allegations made against him by critics in the Afghan finance industry and bank examiners within the Central Bank. Founded in 1954, Pashtany Bank is one of two remaining state-owned banks in Afghanistan and is in the top half of all licensed Afghan banks in terms of assets and depositors. Over the past few months, the Central Bank has privately accused Pashtany Bank of corruption, improper loans, and general mismanagement as part of their onsite examination process. Pashtany Bank's primary shareholder is the Ministry of Finance (approximately 96% ownership), which is responsible for making management decisions, including naming senior management and dismissing them as necessary. (Note: The Ministry of Finance is also the majority shareholder of Bank-e-Millie, Afghanistan's other state-owned bank, which appears better positioned from both a financial and management perspective.)

¶3. (SBU) Responding to these allegations against him, Dayani argued that he has been "too successful" in reforming Pashtany Bank and has made enemies in the process, including "elite" private bank owners who are part of a larger "economic mafia." Dayani believes these elites see Pashtany as a threat because the people of Afghanistan prefer a well run state bank over a private bank.

¶4. (SBU) When asked about disagreements between his bank and the DAB, Dayani's attitude and physical posture visibly changed. He pointed out that his financial institution was recently audited by

an international company -- KPMG -- and that this audit is more trustworthy than the Central Bank's Supervision Department that "cannot add five lines together." Dayani labeled the Central Bank's report as "unbelievable" and "full of errors." He further noted some of the Central Bank's concerns stem from banking operations that occurred before he joined the bank and should not be attributed to him.

15. (SBU) Recent discussions with Central Bank Governor Fitrat and others with firsthand knowledge, indicate that the original problems at Pashtany Bank are still valid, despite Dayani's claims to the contrary. Afghan Central Bank leadership remain concerned about the health and activities of Pashtany Bank (as recent as an August 10 meeting with Governor Fitrat) and are still actively pushing for the removal of its President. Indeed, the Central Bank governor told Embassy Kabul Coordinating Director for Development and Economic Affairs Ambassador Tony Wayne in late July that he had wanted action taken against Pashtany weeks earlier. Furthermore, in an August 8 meeting with the USAID Director (septel) and in an earlier meeting with Ambassador Wayne, the Minister of Finance indicated his intention to remove the President of Pashtany Bank following presidential elections. The Finance Minister also indicated a preference for consolidating the two state-owned banks over the medium-term and exploring strategies to open ownership to private shareholder investment.

16. (SBU) COMMENT: The Mission's interest is in ensuring that the financial system of Afghanistan is properly regulated and that Pashtany Bank's significant presence in the market (Pashtany currently controls a sizable percentage of total system deposits and loans) does not create system-wide problems. Just as importantly,

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we are interested in making sure the right message is sent to other bank executives who may calculate -- as a result of Pashtany's push back -- that they can defy the Central Bank and operate outside of governmental regulation. Once a new administration is in place, the removal of Dayani and the launch of a comprehensive strategy for the reform of state-owned banks may be viable given recent problems with Pashtany Bank. Reform measures may include the consolidation of the two state-owned banks, removal of staff, and/or other measures that would make them more transparent, effective, and efficient. Such steps, however, will depend on how quickly Parliament confirms incoming ministers and how open they are to state-owned bank reform (in the past Parliament has opposed consolidation).

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